

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, DC

Statutory Review of the System for
Regulating Rates and Classes for
Market Dominant Products

Docket No. RM2017-3

Comments of the United Postmasters and Managers of America (UPMA)

Pursuant to the Commission's December 1, 2017, order number 4258, "Notice of Proposed Rulemaking for the System for Regulating Rates and Classes for Market Dominant Products," the United Postmasters and Managers of America (UPMA) hereby submits these comments regarding the Commission's proposed changes to the current market dominate rate regulation system.

UPMA represents the interest of approximately 25,000 members, including Postmasters and postal managers who are tasked with ensuring that the full array of quality postal services is accessible to all Americans. UPMA members are keenly aware of the importance of the Postal Service to postal-reliant communities, such as in rural America and inner cities. Consequently, UPMA's desire in these comments is to underscore the shortcomings of the suffocating price-cap system that jeopardizes the sustainability of a universally accessible postal system. In sum, the present pricing system undermines the postal services to which Americans expect and deserve. Indeed, the foundational reason for the existence of our nation's postal system is to provide postal services to "bind the National together" through correspondence of the people and to "provide prompt reliable and efficient services to patrons in all areas and shall render postal services to all communities."¹ Failure to generate the necessary revenue to support the Postal Service's core mission should be a primary concern of the Commission.

The Commission should not misconstrue UPMA advocacy in favor of revising the rate-setting system as a substitute for meaningful and comprehensive postal legislation; rather, the Commission's conclusion is merely one part of a multi-prong effort to enact legislation and advance a regulatory

¹ 39 U.S.C. §101(a)

process to sustain a viable and vibrant Postal Service. UPMA and its members are aggressively advocating in favor of legislative action and regulatory relief.

As all commenters are aware, Section 3622(d)(3) of the Postal Accountability and Enhancement Act or 2006 (PAEA) obligates the Commission to review the system for regulating rates and classes of market- dominant products established under the Act “to determine if the system is achieving the objectives” created in the statute. This review, which is required ten years after enactment of the Act, is the basis of this docket.

On December 1, 2017, the Commission issued its *Order on the Findings and Determination of the 39 U.S.C. § 3622 Review* and concluded that the current rate and regulatory system failed to promote a financially stable Postal Service. UPMA concurs in this Commission finding. UPMA believes that the perpetuation of a rate and regulatory regime incapable of sustaining a stable postal entity, and provides insufficient revenue and retained earnings should be deemed to be an inherent existential threat to postal survival. For example, many rural communities and UPMA members have already suffered the consequences of a financially stressed Postal Service. POSTPlan, a 2012 plan represented to the Commission as a postal cost-cutting initiative, led to reductions of postal accessibility to 13,000 small and rural communities, and the separation or reassignment of 13,000 Postmasters.² Parenthetically, two years ago, the Government Accountability Office concluded that a more rigorous cost analysis should have been conducted by the Postal Service as it evaluated POSTPlan data. Specifically, the estimated labor costs were imprecise and incomplete and included errors in underlying data; there was a lack of a sensitivity review; and other factors that affected net cost savings, particularly the potential impact of reduced retail hours on revenue was not measured.³ In this instant, UPMA’s intent is not to reconsider POSTPlan; rather, UPMA seeks to caution the Commission that rash and ill-advised decisions often are initiated in a revenue-lean environment, exacerbated by a rate and regulatory system that impairs postal financial stability.

² PRC, Advisory Opinion on Post Office Structure Plan, N2012-2

³ GAO, U.S. Postal Service: Post Office Changes Suggest Cost Savings, but Improved Guidance, Data, and Analysis Can Inform Future Savings Efforts, GAO 16-385.

With a decade of hindsight, the Commission must concede that the establishment of a CPI-U based price cap, in tandem with an overly burdensome and unfair requirement to prefund future retiree health benefit, at the outset of a deep and wide recession from which the Postal Service is still attempting emerge, was ill-advised. The Commission is now fortunate to have the opportunity and the authority to alleviate, if not correct, the situation.

The Commission suggests a revised rate system that would grant the Postal Service enhanced rate flexibility within a CPI-U based structure. Generally, the Commission would permit the Postal Service two-percent more rate authority above the CPI-U for the next five years. Moreover, the Commission would confer upon the agency an additional 1 percent authority if specified performance standards were to be achieved. This blended rate system could help alleviate the extraordinary fiscal pressure that the current decade-old rigid CPI-U based adjustments place upon the Postal Service, thwarting its capability of providing quality mail service to the American public. Should the Commission continue to believe that a CPI-based annual adjustment is appropriate, UPMA believes that it would be more appropriate to utilize a price index that more precisely reflects the market within which the Postal Service actually operates.

Under the current rate system, the CPI-U index fails to reflect the costs and input-prices that are unique to the Postal Service. The CPI-U measures the changes in the price of a market basket of goods and services purchased by urban consumers. The CPI-U contains general inflation trends of a broad variety of products that Americans purchase. These products include food, energy, housing, medical care, transportation and clothing. Obviously, this is not the same basket of products and services purchased by the Postal Service. The Postal Service is primarily a delivery operation and captures expenses related to mail acceptance, processing, transportation and delivery. It would be fair and more appropriate for the Commission to use a price index that accurately takes into account the pricing changes made by entities whose function is similar to the Postal Service, such as private sector delivery companies that include United Parcel Service and Federal Express. Fortunately, such an index already exists – the CPI-Delivery Services (CPI-DS). If the CPI-DS was used as the basis for market dominant postage adjustments, the Postal Service would have enjoyed greater pricing flexibility and would have been a better fiscal position than it presently finds itself. In fact, over the past ten years, the CPI-DS increased by almost 61 percent, while the CPI-U increased

by slightly less than 20 percent. This represents a more than 41 percent loss in pricing authority suffered by the Postal Service.

Also, it is important to note that the PAEA provides the Commission with the authority to abandon the price-cap regime altogether. Price caps compel the Postal Service to perpetually cut costs and services. The Commission should replace price caps with a more rational rate system that focuses on incenting high-quality universally accessible postal operations. UPMA urges the Commission to seriously considering creating an entirely new rate system that reflects the core values of a universal postal system.

In summary, UPMA strongly believes that the decade-old rate-setting system, established by the PAEA, has failed to sustain a financially stable and viable Postal Service. This failure has resulted in the reduction of postal services to the American public, particularly to citizens residing and working in rural communities. We urge the Commission to adopt a new rate system that will yield a vibrant, responsive and universal Postal Service.

Respectfully submitted,

/s/

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